

Missouri Annual Conference of the United Methodist Church

Independent Auditor's Report and Consolidated
Financial Statements

December 31, 2015

Missouri Annual Conference of the United Methodist Church
December 31, 2015

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Independent Auditor's Report

Council on Finance and Administration
Missouri Annual Conference of the
United Methodist Church
Columbia, Missouri

We have audited the accompanying consolidated financial statements of Missouri Annual Conference of the United Methodist Church, which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Missouri Annual Conference of the United Methodist Church, as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1*, to the financial statements, in 2015, the Conference has elected to change its financial reporting framework from the modified cash basis of accounting to the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subject to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BKD, LLP

Springfield, Missouri
May 27, 2016

Missouri Annual Conference of the United Methodist Church
Statement of Financial Position
December 31, 2015

Assets

Cash and cash equivalents	\$ 9,241,290
Accounts receivable, net of allowance of \$295,048	73,762
Other receivables and prepaid expenses	171,056
Investments	8,899,691
Note receivable, net of allowance of \$90,000	30,003
Property and equipment, net	<u>5,793,243</u>
Total assets	<u><u>\$ 24,209,045</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 881,044
Accrued expenses	225,864
Deferred revenue	14,273
Notes payable	<u>1,151,205</u>
Total liabilities	<u>2,272,386</u>

Net Assets

Unrestricted	21,093,770
Temporarily restricted	471,895
Permanently restricted	<u>370,994</u>
Total net assets	<u>21,936,659</u>
Total liabilities and net assets	<u><u>\$ 24,209,045</u></u>

Missouri Annual Conference of the United Methodist Church
Statement of Activities
Year Ended December 31, 2015

Changes in Unrestricted Net Assets	
Revenues, gains and other support	
Apportionments, net of uncollected of \$1,246,971	\$ 8,975,549
Contributions	1,535,193
Event registrations	543,515
Rental income	16,894
Other revenues	2,975,927
Collection from benefit plan participants	7,889,332
Net assets released from restrictions	<u>268,960</u>
Total unrestricted revenues, gains and other support	<u>22,205,370</u>
Expenses and losses	
Program services	3,902,171
Management and general	<u>18,750,650</u>
Total expenses and losses	<u>22,652,821</u>
Change in Unrestricted Net Assets Before Other Gains (Losses)	(447,451)
Other Gains (Losses)	
Gain on sale of property and equipment	1,988,459
Investment return	<u>(132,224)</u>
Change in Unrestricted Net Assets	<u>1,408,784</u>
Changes in Temporarily Restricted Net Assets	
Contributions, gifts and donations	54,113
Investment return	(6,067)
Net assets released from restrictions	<u>(268,960)</u>
Change in Temporarily Restricted Net Assets	<u>(220,914)</u>
Change in Net Assets	<u>1,187,870</u>
Net Assets, Beginning of Year, as Previously Reported	8,365,900
Cumulative Effect of Change in Financial Reporting Framework	<u>12,382,889</u>
Net Assets, Beginning of Year, as Adjusted	<u>20,748,789</u>
Net Assets, End of Year	<u><u>\$ 21,936,659</u></u>

Missouri Annual Conference of the United Methodist Church
Statement of Cash Flows
Year Ended December 31, 2015

Operating Activities	
Change in net assets	\$ 1,187,870
Items not requiring (providing) operating activities cash flows	
Depreciation	175,805
Net unrealized and realized losses on investments	231,925
Allowance for uncollectible notes receivable	90,000
Gain on sale of property and equipment	(1,988,459)
Changes in	
Accounts receivables	(122,876)
Prepaid expenses and other assets	6,593
Accounts payable and accrued expenses	(70,744)
Deferred revenue	<u>14,273</u>
Net cash used in operating activities	<u>(475,613)</u>
Investing Activities	
Proceeds from sale of property and equipment	1,988,459
Purchases of property and equipment	(1,864,833)
Purchases of investments	(2,972,988)
Loans made to churches	(120,003)
Proceeds from sales of investments	<u>1,719,865</u>
Net cash used in investing activities	<u>(1,249,500)</u>
Financing Activities	
Payment of principal on notes payable	(2,297,507)
Proceeds from sale of property and equipment	<u>1,716,876</u>
Net cash used in financing activities	<u>(580,631)</u>
Decrease in Cash	(2,305,744)
Cash, Beginning of Year	<u>11,547,034</u>
Cash, End of Year	<u>\$ 9,241,290</u>
Supplemental Cash Flows Information	
Interest paid	\$ 60,639

Missouri Annual Conference of the United Methodist Church
Notes to Consolidated Financial Statements
December 31, 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Missouri Annual Conference of the United Methodist Church (“the Conference”) was developed to maintain and administer a comprehensive and coordinated plan of fiscal and administrative policies, procedures, and management services for the “connection” of local United Methodist churches and clergy in Missouri. According to The Book of Discipline of the United Methodist Church, the Conference is required to include specific items of the General Church in its budget. Other budget items may originate from within the Conference. When the total budget is adopted by the Conference, it is apportioned to the local churches on a decimal basis and funds are remitted to the Conference Treasurer for the purpose of distribution.

The General Board of Pensions and Health Benefits (General Board) is a not-for-profit, administrative agency of the religious denomination known as the United Methodist Church. The Board of Pensions of the Missouri Annual Conference (Board of Pensions) is a plan sponsor, along with other annual conferences’ board of pensions, of various pension, disability, death and health benefit plans, programs and funds administered by the General Board.

The Conference’s revenues and other support are derived principally from apportionment receipts from member churches, which are then distributed to provide various program services. The Board of Pensions also provides health insurance to Conference employees and to member church clergy for which the Board of Pensions charges a defined contribution. Other major sources of revenue include contributions, investment income and various registration fees.

Principles of Consolidation

The consolidated financial statements hereafter referred to as the “Conference” include the accounts of the Missouri Annual Conference of the United Methodist Church, including all conference boards, teams, committees and task forces, including the Board of Pensions. The statements do not include the activities of local congregations because they do not meet the requirements of consolidation. All significant intercompany accounts and transactions have been eliminated.

Missouri Annual Conference of the United Methodist Church
Notes to Consolidated Financial Statements
December 31, 2015

Change in Financial Reporting Framework

In 2015, the Conference changed from the modified cash basis of accounting to the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. As a result of the change, net assets as of January 1, 2015, were adjusted as follows:

Net assets, as previously reported	<u>\$ 8,365,900</u>
Cumulative effect related to recording investments	7,728,091
Cumulative effect related to recording accounts receivable and other current assets	170,108
Cumulative effect related to recording property and equipment	4,104,215
Cumulative effect related to recording notes payable	(978,169)
Cumulative effect related to recording accounts payable and other accrued expenses	<u>1,358,644</u>
Total cumulative effect of change in financial reporting framework	<u>12,382,889</u>
Net assets, as adjusted	<u><u>\$ 20,748,789</u></u>

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Conference considers all liquid investments with original maturities of three months or less to be cash equivalent. At December 31, 2015, cash equivalents consisted primarily of money market accounts with brokers and cash held at financial institutions.

At December 31, 2015, the Conference's cash accounts exceeded federally insured limits by approximately \$8,111,000.

Missouri Annual Conference of the United Methodist Church
Notes to Consolidated Financial Statements
December 31, 2015

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Fair values are determined using quoted market prices or dealer quotes. Other investments are valued at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Accounts Receivable

Accounts receivable are stated at the amount billed to participants. The Conference provides an allowance for doubtful accounts, which is based upon review of outstanding receivables, historical collection information and existing economic conditions. It is the Conference's practice to write off accounts receivable related to apportionments in total after January 31 subsequent to year in which they are billed and not to write off benefits receivable unless it becomes advantageous to the Conference or the local church to do so.

Notes Receivable

Notes receivable are stated at their outstanding principal balance, net of allowance for uncollectible notes. Unless an individual loan or borrower relationship warrants separate analysis, the Conference provides an allowance for uncollectible notes, which allows for credit losses, if necessary, based upon a review of outstanding receivables, historical collection information and existing economic conditions. Outstanding notes accrue interest based on the terms of the respective note agreements. Delinquent notes are written off based on individual credit evaluations and specific circumstances of the borrower. At December 31, 2015, there was a \$90,000 allowance recorded for credit losses on notes receivable and no notes were written off as uncollectible during 2015.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	15-39 years
Equipment	3-7 years
Vehicles	5 years

Missouri Annual Conference of the United Methodist Church
Notes to Consolidated Financial Statements
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Long-Lived Asset Impairment

The Conference evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the assets, the assets cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the year ended December 31, 2015.

Program Expenses

Program expenses include all activity to support the activity of five “centers”, which are Congregational Development, Pastoral Excellence, Mission, Service and Justice, Connectional Ministries, and Finance and Administration. Examples include Congregational Development grants for new churches, the Right Start Conference, Annual Conference Sessions, the Safe Sanctuaries program, and miscellaneous conferences, workshops and activities.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Conference has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Conference in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Missouri Annual Conference of the United Methodist Church
Notes to Consolidated Financial Statements
December 31, 2015

Apportionments

Apportionment revenue is reported as unrestricted revenue and net assets in the month for which it is billed.

Deferred Revenue

Revenue from apportionment fees of \$14,273 at December 31, 2015, is deferred and recognized over the periods to which the fees relate.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities.

Exemption from Income Taxes

The Conference is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code as provided by a group letter ruling issued to the United Methodist General Council on Finance and Administration (GCFA) from the Internal Revenue Service and a similar provision of state law. However, the Conference is subject to federal income tax on any unrelated business taxable income.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

Note 2: Investments and Investment Return

Investments at December 31, 2015, consisted of the following:

Equities	\$ 510,084
Fixed income	1,040,721
Real assets	75,293
Funds held in deposit at the Missouri United Methodist Foundation	3,367,741
Funds held in deposit at the General Board of Pension and Health Short-term investment fund	302,755
Multiple asset fund	3,440,181
Other	162,916
	<u>\$ 8,899,691</u>

Missouri Annual Conference of the United Methodist Church
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Total investment return is comprised of the following:

Interest and dividend income	\$ 93,634
Net realized and unrealized loss on investments	<u>(231,925)</u>
	<u><u>\$ (138,291)</u></u>

Note 3: Property and Equipment

Property and equipment at December 31 consists of:

Land	\$ 1,280,500
Buildings and improvements	5,467,625
Equipment	122,067
Vehicles	<u>167,319</u>
	7,037,511
Less accumulated depreciation	<u>1,244,268</u>
	<u><u>\$ 5,793,243</u></u>

Note 4: Notes Payable

Notes Payable to UMB Bank, N.A. (A)	\$ -
Note Payable to Boone County National Bank (B)	<u>1,151,205</u>
	<u><u>\$ 1,151,205</u></u>

(A) The Conference executed a note agreement during 2014 with UMB Bank, N.A. for \$1,700,000. Payments are due monthly including interest at 3.7%. During 2015 the Note was paid in full and was secured by certain property and equipment.

The Conference executed a note agreement during 2014 with UMB Bank, N.A. for \$87,773. Payments are due monthly including interest at 4.99%. During 2015 the Note was paid in full and was secured by certain property and equipment.

(B) Due March 6, 2020; payable \$12,145 monthly, including interest at 3.49% with the balloon payment at the end of the term; secured by certain property and equipment.

Missouri Annual Conference of the United Methodist Church
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Aggregate annual maturities of notes payable at December 31, 2015, are:

2016		\$	107,296
2017			111,101
2018			115,041
2019			119,121
2020			698,646
			698,646
		\$	1,151,205

Note 5: Net Assets

Temporarily restricted net assets are restricted to be expended generally for college ministries, new church development and other missions. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Permanently restricted net assets are restricted for investment in perpetuity, the income from which is generally expendable for new church development, missions and student scholarships. Certain donors have stipulated that the income accumulate with the corpus of the endowment until a certain total amount is reached, at which time income from that point forward is expendable.

Note 6: Endowment

Interpretation of State Law

The Conference's endowment consists of approximately 30 individual funds established for a variety of purposes. The endowment includes only donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Conference's governing body has interpreted the State of Missouri Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conference classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Conference in a manner consistent with the standard of prudence prescribed by SPMIFA.

Missouri Annual Conference of the United Methodist Church
Notes to Consolidated Financial Statements
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In accordance with SPMIFA, the Conference considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Conference and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Conference
7. Investment policies of the Conference

Investment and Spending Policies

The Conference has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Conference must hold in perpetuity or for donor-specified periods. Under the Conference's policies, endowment assets are invested in a manner that is intended to preserve inflation adjusted values and provide annual budgetary support that is both stable and growing. The Conference expects its endowment funds to provide an average rate of return of approximately 4-5% annually over time. Actual returns in any given year may vary from this amount. All endowment assets are invested through the Missouri United Methodist Foundation (Foundation).

The Conference has a policy (the spending policy) of appropriating for expenditure each year the investment income distributed by the Foundation. This is consistent with the Conference's objective to maintain the purchasing power of endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

The composition of net assets by type of endowment fund at December 31, 2015 was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 471,895	\$ 370,994	\$ 842,889

Missouri Annual Conference of the United Methodist Church
Notes to Consolidated Financial Statements
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Changes in endowment net assets for the year ended December 31, 2015 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 494,910	\$ 370,994	\$ 865,904
Investment return				
Investment income	-	18,558	-	18,558
Net appreciation (depreciation)	-	(24,625)	-	(24,625)
Total investment return	-	(6,067)	-	(6,067)
Appropriation of endowment assets for expenditure	-	(16,948)	-	(16,948)
Endowment net assets, end of year	\$ -	\$ 471,895	\$ 370,994	\$ 842,889

Note 7: Pension and Retirement Plans

The Conference has three defined-contribution 403(b) pension plans for clergy and lay employees who meet certain eligibility requirements. The Clergy Retirement Security Plan (CRSP) is a noncontributory pension plan that covers eligible clergy employed by the Conference. Contributions to the plan are equal to 3% of the compensation base for each individual. The United Methodist Personal Investment Plan (UMPIP) is a pension plan that covers eligible clergy and lay employees of the Conference. Under the UMPIP plan, the Conference contributes 12% of compensation. Eligible participants may contribute to the UMPIP plan on a pretax or after-tax basis up to the maximum amount prescribed by law.

The Conference also participates with other United Methodist Organizations in a multiemployer, defined-benefit pension plan that covers local pastors and Conference clergy. The Clergy Retirement Security Program (CRSP) provides fixed, monthly retirement payments on the basis of the credits earned by the Conference clergy. This plan is administered by the General Board of Pensions and Health Benefits of the United Methodist Church. The plan administrator maintains separate funding accounts for each plan sponsor, such as the Conference, and claims of each plan sponsor are paid from their funding account. However, in the event a plan sponsor does not have sufficient assets in their funding account to fund their claims, the plan administrator may use the assets of other plan sponsors on a pro-rata basis to fund these claims. The Conference's funding policy is to make the minimum annual contribution that is required by applicable regulations. For 2015, the related amount of pension expense for all plans was \$319,165.

Missouri Annual Conference of the United Methodist Church
Notes to Consolidated Financial Statements
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Note 8: Disability, Death and Health Benefit Plans and Programs

The three current disability, death and health benefit programs include the Comprehensive Protection Plan (CPP), providing various welfare benefits to eligible clergy; the UMLife Options Plan, providing various welfare benefits to eligible clergy and lay employees of participating local churches, the Missouri Annual Conference of the United Methodist Church, and other eligible United Methodist-related institutions; and the Hospitalization and Medical Expense Program (HMEP), doing business as HealthFlex, providing group health coverage to employees of participating local churches, the Missouri Annual Conference, general agencies, and other eligible United Methodist-related institutions.

If approved annually the Conference may provide a nontransferable stipend to certain retired clergy. Clergy retiring with 30 years or more of service or having reached age of 62 may be eligible upon attaining age 65 to receive a stipend based on the schedule below:

- Retiring before July 1, 2005: 50% of stipend
- Retiring after June 30, 2005: 40% of stipend
- Retiring after June 30, 2006: 30% of stipend
- Retiring after June 30, 2007: 20% of stipend
- Retiring after June 30, 2008: 10% of stipend
- Retiring after June 30, 2009: 0% of stipend

The Conference provided a stipend of up to \$255 per month in 2015, which has been increased to \$260 per month for 2016.

On December 8, 2003, the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* (the "Act") was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D.

Missouri Annual Conference of the United Methodist Church
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The Conference has not reflected the effects of the Act on the measurements because the Conference does not provide creditable coverage as defined in the Act. The Conference has never considered the stipends as a group plan.

Note 9: HealthFlex Performance Dividend

HealthFlex is a self-funded church plan, contracting with certain outside firms for administrative services only. In order to manage its risk, the General Board of Pensions enters into aggregated per-participant stop-loss agreements. As the HealthFlex plan administrator, the General Board of Pensions bills the Missouri Board of Pensions and various other plan sponsors for premiums for benefits received by the Missouri Board of Pensions and various other plan sponsors for premiums for benefits received by the plan participants. HealthFlex periodically issues performance dividends to plan sponsors if the plan sponsors' respective underwriting experience is favorable. The Conference did not receive a performance dividend in the year ended December 31, 2015.

Note 10: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Missouri Annual Conference of the United Methodist Church
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Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015.

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities	\$ 510,084	\$ 510,084	\$ -	\$ -
Fixed income	1,040,721	1,040,721	-	-
Real assets	75,293	75,293	-	-
Funds held in deposit at the Missouri United Methodist Foundation	3,367,741	-	3,367,741	-
Funds held in deposit at the General Board of Pension and Health				
Short-term investment fund	302,755	-	302,755	-
Multiple asset fund	3,440,181	-	3,440,181	-
Other	162,916	162,916	-	-
	<u>\$ 8,899,691</u>	<u>\$ 1,789,014</u>	<u>\$ 7,110,677</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market or investments could be redeemed at cost, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equities, fixed income, real assets, and other securities at December 31, 2015. Other securities include mutual funds, market prices for all of which are available in an active market. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and discounted cash flows. Such securities are classified in Level 2 of the valuation hierarchy. Because the Conference can redeem its investments at a unit value per share (equivalent of net asset per share) at December 31 or within a reasonable period of time, the investments at Missouri United Methodist Foundation, and General Board of Pension and Health (GBPH) are classified within level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Conference has no investments classified as Level 3 within the hierarchy.

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The short-term investment fund at GBPH seeks to maximize current income consistent with preservation of capital.

The multiple asset fund at GBPH seeks to provide investors with relatively long time horizons and investment which focuses on long-term investment growth and income from exposure to a broadly diversified portfolio comprised of U.S. equities, fixed income securities, international equities and cash equivalents. Withdrawals may be requested at any time and will be processed as of the first of the month following the request.

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations.

Investments

The Conference invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement of financial position.

Litigation

The Conference is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Conference. Events could occur that would change this estimate materially in the near term.

Note 12: Lease Arrangements

The Conference entered into a lease agreement with the Missouri United Methodist Foundation (the "Foundation") effective July 1, 2015. The Foundation moved into and rented a portion of the Conference office building in July 2015. Under the terms of the lease, the Conference will receive monthly rental payments of \$1,800 through June 2018.

The following is a schedule of future rental income under the operating lease referred to above:

2016	\$	21,600
2017		21,600
2018		<u>10,800</u>
Total	\$	<u>54,000</u>

Missouri Annual Conference of the United Methodist Church
Notes to Consolidated Financial Statements
December 31, 2015

Note 13: Related Party Transactions

The Missouri Annual Conference of the United Methodist Church (“the Conference”) maintains and administers a comprehensive and coordinated plan of fiscal and administrative policies, procedures, and management services for the Missouri Annual Conference. These include providing administrative services for the Board of Pensions and the Board of Ordained Ministries, for which an annual payment is made to the Conference by the Board of Pensions and the Board of Ordained Ministries. The payment made by the Board of Pensions and the Board of Ordained Ministries is \$70,000 and \$70,000, respectively, annually. These payments are eliminated in the financial statements.

Missouri Annual Conference of the United Methodist Church
Statement of Activities – Episcopal Office
Year Ended December 31, 2015

Revenues, Gains and Other Support

Apportionments	\$ 92,753
Other revenues	<u>86,400</u>
Total unrestricted revenues, gains and other support	<u>179,153</u>

Expenses and Losses

Benevolent disbursement	13,200
Uncollected apportionments	13,479
Salaries	71,177
Housing and furnishings allowance	3,754
Payroll taxes	1,741
Employee benefits	3,632
Professional development, travel, meals and entertainment	28,209
Postage	4,481
Printing	1,718
Office supplies	1,086
Events	26,901
Building repair and maintenance	784
Workers' compensation insurance	150
Other administrative	<u>54</u>
Total expenses and losses	<u>170,366</u>

Transfers from (to) other conference funds	
Rent and occupancy	<u>(27,000)</u>

Change in Net Assets (18,213)

Net Assets, Beginning of Year 121,278

Net Assets, End of Year \$ 103,065